

STANDARD

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*Office Memorandum* • UNITED STATES GOVERNMENT

TO : **DB/I**

DATE: **4 November 1959**

FROM : **AD/RR**

SUBJECT: **Additional Material for the Director's Testimony before the  
Subcommittee on Economic Statistics of the Joint Economic  
Committee**

**In response to your request, you will find enclosed the  
original and one copy of additional material on Soviet economic  
penetration for possible inclusion in the Director's testimony  
before the Subcommittee on Economic Statistics.**

**OTTO E. QUINN**

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Insert to p. 12.

Meanwhile, the challenge of Soviet economic growth is by no means confined to statistics, nor are the Soviets passively expecting their internal economic achievements to speak for themselves in inducing other countries to join the Communist camp. For the past five years the entire Soviet Bloc has cultivated economic contacts with the underdeveloped countries of the world, taking advantage of every opportunity offered, and creating additional opportunities on their own. The weapons of an economic offensive are trade, credits and grants -- and competition with third countries in the markets of the area which is the subject of the contest. All of these weapons have been used, but their specific form and proportions have varied from place to place. Indeed, the avenues of approach used by the Communist Bloc in its economic penetration effort have been as varied as the nations to which the effort has been directed. This variation, I must emphasize, is a reflection of Soviet research, planning and flexibility rather than uncertainty or caprice. The one dominant theme in the Soviet economic offensive has been to "cut the coat to the customer's satisfaction." Thus, the Soviet approach to the Middle East provided arms to strengthen Arab separation from its Western connections, then nuclear energy laboratories to assuage Egyptian desire for prestige before getting down to the needs for assistance in light manufacturing and industrial activity and in redevelopment of agricultural capacity.

The approach to Afghanistan was to install a few modern processing and commercial facilities and pave the streets of Kabul, in short to create an appearance of modernity in the capital. Only after careful cultivation of the Afghani by extension of early small loans into a large general program were Soviet arms brought into this program.

For India, desirous of rapid expansion of basic industry and the development of industries to produce domestically products which now require large amounts of foreign exchange, the Soviets brought offers of steel mills, oil prospecting groups, oil refineries, machine tools and pharmaceutical chemicals.

Thus, in an opportunistic and pragmatic fashion the Sino-Soviet Bloc has extended more than \$3 billion in military and economic aid since 1954 to underdeveloped countries of the world. Of this total \$2.3 billion or almost 75 percent has been extended by the USSR. From an insignificant beginning in 1954 when a total of \$10 million of financial aid was extended, annual Bloc credits and grants rose somewhat erratically to a total of \$1 billion in 1958 and \$850 million in the first 3 quarters of 1959.

Similarly the number of Bloc technicians active in underdeveloped countries has constantly increased. We estimate that during the period 1 January through 30 June 1959 a total of 6,100 Bloc technicians were working in these areas, of which 4,000 or 65 percent were Soviet.

While pursuing its foreign aid program the Kremlin has worked for the extension of commercial ties between the Bloc and underdeveloped countries. Between 1954 and the present, the number of bilateral trade and payments agreements in force between the Sino-Soviet Bloc and underdeveloped countries was multiplied more than 3 times while the actual exchanges of commodities nearly tripled. As result an increasing share of the foreign trade of these countries is being directed toward the Bloc. This is especially true of those countries which are the most important credit recipients. The Bloc share of Egypt's trade, for example, has grown from 10 percent in 1954 to 50 percent in 1958; its share of Afghanistan's trade from 25 to 40 percent over the same period. Again Bloc trade with these countries has been furthered by a Soviet willingness and ability to purchase the exports of these countries at times when their sales are lagging in the West and to provide manufactured goods which the underdeveloped countries sorely need. Thus Brazil is now in the course of negotiating an exchange with the USSR of its surplus coffee for industrial machinery and fuel oil, both of which Brazil must import and both of which are essential to the operation of the Brazilian economy. The wedge which opened Egypt to Soviet penetration was an offer of arms for cotton.

The ability of the USSR to provide these countries with requisite imports of goods or services, is already impressive, and will not diminish.